United States | 2018

JLL Research Report

Financial Services Operations Centers

Technology driving amazing growth, at least for now…

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It's the mid-1980s.

Getting information from one place to another locally was easy – **you simply called a "bicycle messenger",** and they came to your place of work for pickup and then rushed your package—efficiently and securely—across town within hours.

At the time, the simplicity of banking and financial services was similar. While exceptions existed, the industry's business functions were straightforward and could be divided among retail/branch operations, consumer and commercial lending or insurance services, and, in some instances, investments.

Business advances and technology made that bicycle messenger obsolete. Likewise, the old financial services business model evolved as companies became larger and more complex. **The list to the left highlights the variety of functions in today's 21st-century financial services institution.**

How did the industry change so completely? General industry growth fostered part of it. A larger part, however, was spurred by mergers and acquisitions. Companies saw value in "scale." By getting bigger they could serve a larger customer base and, even more importantly, provide a fuller range of products and services to capture consumer and business needs and wants.

As the institutions grew, their operational needs expanded dramatically. Often, the new/expanded functions were accommodated within existing headquarters cities (even in the HQ buildings) to take advantage of company proximity and centralized management. The mergers and acquisitions also gave these companies new regional headquarters that were sometimes used to house operational functions. These legacy locations created a patchwork of hubs across the United States that served—and still serve—a combination of front office middle office, and back office functions.

Financial services institutions use the terms below to categorize functions and processes. Although all different, they each play an important role to ensure the organization runs smoothly and profitably.

Front office—main corporate and client-facing functions. Often involves creating products and interacting with individual and corporate clients or customers, including sales and marketing roles.

Middle office—functions that directly support the front office, such as risk management, compliance, financial control, strategic management or technology. Tends to be in close physical proximity to the front office location.

Back office—all other supporting operations functions like human resources, payment processing, technology, compliance, accounting and the like.

Integration, integration, *integration!*

Location, location, location

has been the battle cry of commercial real estate for as long as we can remember, while financial service companies chant “integration, integration, integration.” With so many new lines of business, the challenge became how best to integrate functions to be more efficient, serve customers at the highest level and effectively manage costs. At first, this integration was basic. It was all about the expanded companies being on the same platforms for main functions like accounting, financial reporting, compliance and the like. But true efficiency is more complicated—and has taken time to achieve.

Integration today

Despite the list of discrete business lines we noted above, substantial overlap exists between functions in today’s financial services companies. For example, credit card services and payments are inseparable, as are wealth management and investment services. Likewise, operational jobs such as customer service and technology cross multiple business lines, making integration across the entire platform mandatory.

While integration has been a long-standing corporate goal, it is only in the last several years that technology has emerged that allows for meaningful advancement. Today, customer service can be accomplished in discrete and sometimes remote locations from the headquarters base —especially where labor availability and wages make it easy to do business. We’ve already seen the early rollout of automated bank branches, where teller services are centrally located in a contact center elsewhere in the United States and seamlessly accessible to the customer from a big screen.

Technology advancements continue to accelerate and are transforming the financial services sector. Call it “digitization.” It has taken years to get to this inflection point, but the groundwork has finally been laid for different systems to communicate with each other and automate routine tasks. Financial records can now be quickly, accurately and centrally reconciled, as well as patterns identified that allow an institution to manage risk and find new opportunities to serve their customers/clients. One hard truth, however, is that integration is a complex process. Many institutions are still working through melding their legacy acquisitions and functions into a cohesive whole. It is not as simple as flipping a switch to turn on the new systems.

The value of integration!

1. Greater efficiency
2. Serving customers better
3. Managing costs effectively

In fact, based on our review of many of the larger U.S. financial service companies, almost two-thirds of their office space is located outside of their headquarters towns. These outposts, located in select pockets across the United States, are often doing important operational work for the companies.

Financial service sector	HQ cities	Other locations	Total
Banks and financial institutions	34%	66%	100%
Insurance companies	39%	61%	100%
Total/average	36%	64%	100%

The accompanying map illustrates established operations hubs across the United States, as well as secondary/emerging hubs and unexpected concentrations of operations functions for major financial service institutions. While these are the dominant locations, other hubs exist across United States in both large and small markets.

2/3

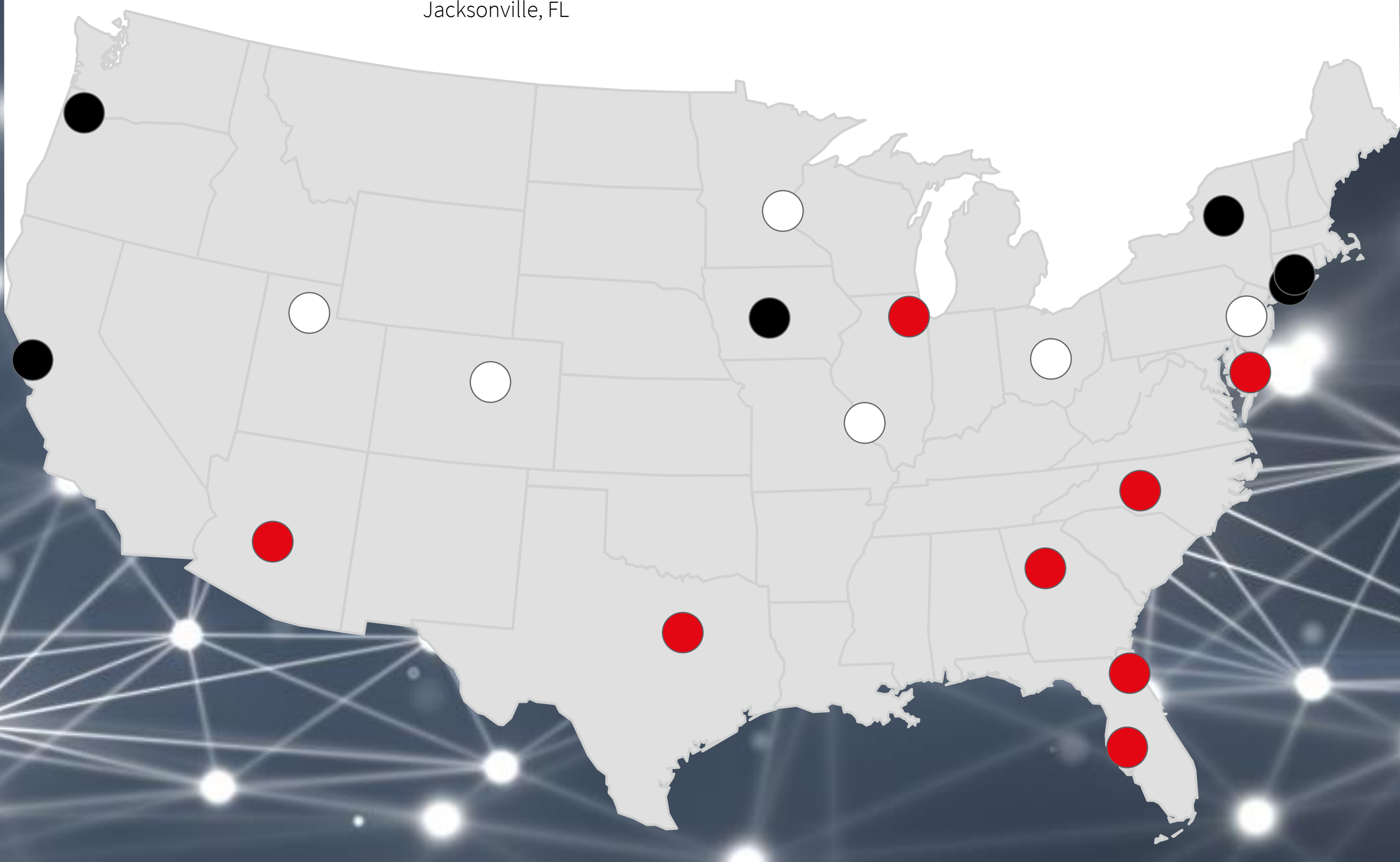
of all financial service office space is located outside of headquarter towns

Financial services operations hubs

Established operation hub
Atlanta
Dallas–Fort Worth
Phoenix
Charlotte
Chicago
Tampa
Wilmington, DE
Jacksonville, FL

Secondary/emerging hub
Columbus
Jersey City
Saint Louis
Salt Lake City
Minneapolis
Denver

Unexpected hub
Brooklyn
San Francisco
Des Moines
Upstate NY
Portland
New York City



25%

of all jobs posted are for information technology

Future directions in *hiring*

We looked at current full-time job postings in the U.S. for many of the larger financial service institutions, closely examining job function and location. Of the almost 27,000 postings we tallied, only 16 percent were in each company's headquarters city. The remainder were across the United States and reflected the various locations where core operations were taking place.

Still even more interesting, current hiring strategies in these companies are targeting a very different financial service professional. In the past, jobs were for traditional roles such as relationship managers, compliance officers, underwriters, risk managers and sales.

Today, information technology alone comprises 25 percent of the total postings.
This includes roles like infrastructure developers, software engineering, JAVA and Tableau engineers, cloud development, security and data loss prevention, business intelligence, automation engineers and trading technology.

Adding in other functions like customer service and accounting-related (which includes risk management, compliance, capital stress testing and economic/credit analysis and modeling) brings that total to 43 percent of all postings are in operations-based jobs.

While some of these jobs will be accommodated in corporate headquarters and regional/legacy headquarters locations, more will flow to operation hubs across the United States as the industry continues to integrate and streamline functions.

Full-time U.S. job postings/metro locations

147%	Total postings
5%	Accounting and audit
23%	Business development
13%	Customer service
33%	Finance
25%	Information technology
1%	Legal
46%	Sales
43%	Total operations functions

Note – job postings total more than 100 percent due to multiple tags for each job (such as a wealth management advisor could also be listed under sales and business development.)

Today’s operation hubs–how are they *evolving?*

Today’s large financial service companies are complex.

First, while all are moving toward more complete and efficient integration, companies are at different stages in their evolution, as well as their business priorities. This exists across and even within service lines in the same company.

Second, change is taking place at breakneck speed as technology advancements allow companies to digitize functions and share raw data, results and analyses across their platforms. This virtual business environment, which has been talked about for a long time, is now real—and is shaping location decisions. What is astounding is that not only are location decisions from 10-plus years ago being rethought, but space commitments from even a few years ago are being reconsidered. The fundamental boardroom issues being discussed today are the functions that should take place in those locations—**and even whether the newest of the locations are still needed for where the company is now headed.**

Data centers, one specialized type of operation center, are a prime example. Many companies built data hubs over the last several years to integrate operations. Today, cloud storage has revolutionized the industry. While the new brick-and-mortar data centers are still state-of-the-art, the rapidly changing tech landscape has some institutions reconsidering that strategy. In essence, going to the cloud takes the responsibility for managing future change off their shoulders and allows them to focus on their core businesses.

In addition, some established hubs like Wilmington, Delaware that have served the financial services industry for decades as a processing location are becoming antiquated as digitization allows better integration of operations elsewhere. Likewise, depending on the specific company and its operations locations, increasing digitization allows it to move functions fluidly from city to city.

Our outlook: change is *certain!*

Financial service functions take place broadly throughout existing headquarters and non-headquarters locations, as well as purpose-built operations hubs.

The larger financial institutions occupy more than 150 million square feet of office space across the United States, with almost 100 million square feet located outside of their headquarters cities. Given the need to drive efficiency through integration, we expect to see a portion of this space resized as companies digitize functions, allowing them to consolidate operations. Some companies may even choose to leave their established headquarters locations in favor of lower-cost environments as a way to retool operational efficiencies quickly and manage costs.

Over the next five years, we could easily see their corporate office space needs reduced by 25 million square feet. A large share of this will take place in their headquarters markets as growth/expansion continues in the established, secondary/emerging and unexpected operations hubs we identified earlier.

Near-term, all of these operations hubs will benefit because a goal in coordinating a group of operations centers is to tap specific local talent pools that are already concentrated in those locations. Our analysis of job postings reinforces our outlook given that 31 percent of the non-headquarters jobs are in this handful of special operations hubs.

Because of this hiring direction, we expect to see continued growth over the next few years in these markets, as well as a handful of other smaller hubs in the United States. Given recent trends in this cycle, new and expanded operations hubs could total 10 to 15 million square feet in the U.S. (3 to 5 million square feet annually).

Over this period, however, companies will continue to adapt. As existing space is resized/repurposed and new operation hubs are developed to integrate functions, technological change will still be shaping the industry.

31%

of all non-headquarters job postings in the United States are located in established, secondary/emerging and unexpected operations hubs

Because of this, we expect to see continued reduced space needs in locations that are perceived to be less efficient, redundant or high cost beyond the three- and five-year horizons. This may result in some companies stepping away from locations—perhaps even headquarters or recently built projects. For example, operations that now take place in California may be a better fit in Texas given talent availability, wages and operating costs. In addition, even established and expanding hubs like Dallas—Fort Worth may have current or future functions shifted to other markets as technology, location advantages and operational strengths evolve.

With change being certain, financial services institutions will be working to optimize operations to reach greater efficiency, serve their customers better and manage costs effectively—in short, to be successful. While a challenge, this unprecedented change provides the opportunity to identify the right balance between headquarters and operations space.

What's next?

150 m.s.f.

Today – select financial services locations
56 m.s.f. HQ cities
94 m.s.f. other non HQ / operations locations

+15 m.s.f.

Next 3 years:
15 m.s.f. of new, purpose-built operations hubs

- 25 m.s.f.

Next 5 years:
25 m.s.f. of existing HQ and non-HQ / operations space resized and reconfigured

Want to know more?

Walter Bialas
Director of Research
+1 214 438 6228
walter.bialas@am.jll.com

Christian Beaudoin
Senior Director of Research
+1 312 228 2020
christian.beaudoin@am.jll.com

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